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Massachusetts Convention Center Authority

Market Analysis Progress Report

June 22, 1993

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Price Waterhouse

Memorandum

To Francis X. Joyce, Executive Director - Massachusetts Convention Center Authority

From/Location David C. Petersen

Date June 22, 1993

Re Market Analysis Progress Report

The Massachusetts Convention Center Authority retained Price Waterhouse to estimate the market demand for convention facility space in Boston and determine if existing facilities offered the size and types of spaces required to satisfy the present and future (year 2000) demand. I am pleased to report our work is on schedule and we are planning to have a draft of the final report prepared during the week of July 11. This memorandum outlines our findings to date. It is understood the **cost-effectiveness** of developing additional space cannot be determined until three additional tasks (Phase II) are completed:

- Delegate spending survey
- Estimates of development costs
- Financial operations analysis

These three tasks are in process and also on schedule.

We have employed seven diverse analytical techniques to estimate market demand:

1. Historical occupancy and future bookings of Hynes Convention Center.

2. Ranking of Boston's dominant site location criteria (population, hotel rooms and air service) compared to competitive destinations.

3. Assessment of Boston retaining its competitive strengths in the future.

4. Survey of users to determine advantages and disadvantages of Hynes Convention Center and Boston.

5. Characteristics of competitive convention centers and future planned expansion in **supply** of space.

6. Estimated growth in **demand** for convention and trade show facilities.

7. Estimated current and future market shares for Hynes Convention Center and competitor facilities.

These seven tasks provided the basis on which we estimated exhibit space occupancy and attendance for four ranges of convention center expansion in Boston:

1. No expansion.

2. Add 200,000 square feet of exhibit space.

3. Add 450,000 square feet of exhibit space.

4. Add 650,000 square feet of exhibit space.

With this information and the results of the three tasks in progress, we will be able to estimate the **cost-effectiveness** of each option or, conversely, determine the maximum amount of additional space that would be cost-effective to develop (if different from the four configurations being tested).

Historical Utilization and Future Bookings

Convention and trade show occupancy for the past three years at Hynes Convention Center has ranged from 55-68%. These occupancies compare very favorably with historic occupancies for other major market centers (primary convention facilities in metro areas with over 20,000 hotel rooms) and approach the practical maximum capacity, 70%, for convention and trade show occupancy in **any** center. Future bookings show a continued trend for maximum occupancy, more shows utilizing the entire building and several customers out-growing the present space (i.e. lost business).

Ranking of Dominant Site Selection Criteria

There appears to be a strong relationship between a destination's metro area "dominant selection criteria" (which include hotel room supply, air access and population size) and its annual convention attendance. Boston ranks fifth in these criteria among eleven competitive destinations. It also ranks fifth in terms of annual number of convention delegates. When compared to all twenty-four major market centers, Boston ranks eighth in dominant site selection criteria but only twenty-second in amount of exhibit space in its primary center!

Assessment of Boston Retaining its Competitive Strength

The primary support for hotel room occupancy is created by commercial travelers. In comparison to the twenty-four major markets, Boston ranks fifth in Class A occupied commercial office space in its downtown area. We believe this factor, in addition to Boston's number one ranking among major market centers in terms of adjacent (1-2 blocks) hotel rooms and its center city residential development will preserve Boston's attractive amenities in the foreseeable future (restaurants, retail shops and other attractions). Given these fundamental advantages, Boston will retain or improve its competitive strength in the convention market for the foreseeable future.

Perceptions of Hynes Convention Center Customers – User Survey

The survey of forty Hynes Convention Center past and potential customers reveals its competitive strengths to be:

- Proximate hotel rooms
- Center staff and management
- Quality service
- Modern facility

The weaknesses of Hynes are:

- Non-contiguous exhibit space (2 levels)
- High rental rates
- High food and beverage costs
- Difficulty with move-in/move-out

The competitive advantages of Boston as a **destination** were reported to be:

- Size of market area/population base
- Attractions/attendance "draw"
- Quality of hotel supply
- Restaurants

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Boston's disadvantages, which are common to most large cities in the Northeast, are:

- Weather
- Costs
- Perception of crime (common to most large cities)

Prior surveys have reinforced Hynes Convention Center's reputation for its staff providing high quality services and above-average food and beverage services. Prior studies have also indicated that events held in Boston tend to draw higher attendance than the same event held in other locations. Boston is often referred to by meeting planners as "the San Francisco of the East Coast." Indeed, San Francisco's Moscone Center is the principal center outside the eastern region with which Hynes regularly competes, particularly for medical conferences.

Future Growth in Supply

If **all** centers in major markets expand according to their current plans, the total exhibit space provided in these markets will increase by 3-3.5% per year (compounded annually) over the next decade.

Future Growth in Demand

If future demand for exhibit space increases as estimated by *Trade Show Week*, or similar to historic increases, it will expand by about 6% per year (compounded annually). Over the past decade, occupied space in primary convention centers in the twenty-four largest U.S. markets increased at a rate of about 10% per year (compounded annually). We have **conservatively** estimated the demand for exhibit space in centers of the twenty-four largest markets to increase at 6% per year (compounded annually) over the next ten years, which is considerably below the rate of growth in the past decade.

Current and Future Market Share Analysis

Although Hynes Convention Center offers only 1.8% of the total supply of exhibit space in the major markets, it has captured 5.2% of the occupancy for national ambulatory events in the size range of 60,000-200,000 square feet. We believe Boston will continue to enjoy its status as an "over-achiever" if it is able to add space so it can compete more effectively by accommodating larger new shows, two or more shows simultaneously, past customers which have outgrown space available at Hynes, shows

requiring move-in/move-out **on-grade** and shows requiring more than 100,000 square feet of contiguous space. Certainly, Hynes Convention Center's past performance and reputation for providing superior services, as well as Boston's reputation as an attractive destination, would reinforce this expectation.

Estimated Occupancy and Attendance

In each of the alternative future size configurations (measured in terms of exhibit space), we have estimated occupancy and attendance as follows:

	No Expansion	Add 200,000 Square Feet	Add 450,000 Square Feet	Add 650,000 Square Feet
Convention and Trade Show Occupancy	**60-65%**	**60-65%**	**57-62%**	**52-57%**
Attendance (000)	**320-350**	**520-560**	**720-780**	**840-920**
Average Increase		**60%**	**125%**	**160%**

As stated earlier, after we have completed our estimates of financial operations and delegate spending and once The Architects Collaborative has completed their estimates of development costs, we will have the data needed to estimate the **cost-effectiveness** for each of the three development options defined above. With this information, we will also estimate the maximum cost-effective space which may be needed to serve Boston at the turn of the century – just seven years away.

Expansion Locations

We are also evaluating the relative advantages of expanding Hynes, developing new facilities at another site or doing both. In accordance with our agreement, we have reviewed the Coopers & Lybrand study of potential sites for a new facility. Based on our analysis of the Coopers & Lybrand site study and our visual inspection of the three Boston/Cambridge sites Coopers & Lybrand analyzed, we have no reason to dispute Coopers & Lybrand's conclusion that the South Bay site is superior to the other two in terms of its marketability.

Our market analysis indicates that the significant addition of exhibit space, whether undertaken at Hynes Convention Center or another marketable site (or, indeed, both), would yield high occupancies in existing Hynes space as well as in the new space.

Put another way, developing new space at another site will not adversely affect Hynes Convention Center.

Summary

Boston has far too little convention/exhibit space to meet the present and projected market demand. A major expansion is virtually assured of attracting large numbers of out-of-town delegates. Boston loses significant convention business because its primary facility, Hynes Convention Center, while appropriately sized to meet projected demand when planned nearly ten years ago, is now too small to meet today's demand. And that demand is growing. Failure to undertake a major expansion of convention space in Boston would result in large and growing opportunity costs in terms of lost convention business.